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Retail Food Sector

Market Brief

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Report Highlights:

This Market Brief offers details in the retail trade of food in Russia. The retail sector is growing rapidly in Russia and must be a factor in U.S. exporters strategy of what products and packaging will satisfy consumers' demand for quality goods.

According to market experts, per capita monthly income in Russia will keep growing and will reach \$600 in Russia and \$1,500 in Moscow by 2012. Per capita income in large Russian large cities will increase twofold over the same period of time. This represents a large future growth in consumption of food because of Russia's large population. One analyst believes that Moscow now rivals New York City for its overall consumption of food.

Moscow and Russia are important markets for future imports. Only hard work and further attention on the part of U.S. companies will determine whether this growth is captured solely by European competitors.

Includes PSD Changes: No
Includes Trade Matrix: No
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The Retail Sector is Growing Fast

Russia's food retail sector is growing at an impressive rate, with sales up 30 percent in 2004 to \$146 billion (twice as much as in 2002). With a population of 144 million and expected economic growth of seven percent this year, Russia has become an attractive expansion target for international retail chains.

Despite the rapid expansion of both foreign and local chains, there is still considerable opportunity for further growth. Modern retail formats (supermarkets, hypermarkets, and convenience stores) account for only about 20 percent of retail food sales in Moscow and less than ten percent for the country as a whole.

While the best entry strategy for new-to-market exporters depends on their particular circumstances and experience, there are several general recommendations that can be made. To attend one of the major food trade shows in Russia - 'Prodexpo' in February or 'World Food Moscow' in September - is at the top of the list. Each of these shows is well organized and heavily attended by the major Russian food importers, distributors, and retailers.

Recent Conferences Highlight the Growth

ATO/Moscow attended the "World Food" international conference on September 21, 2004. The food conference was organized by ITE, the World Food trade show organizer, within the World Food trade show to meet the demand of the local professionals in communication. Despite the fact that the conference was being held for the second time, it got high recognition among the local and foreign food professionals. Being held within the World Food show, the event attracted over 100 food producers, retailers and wholesalers primarily from Moscow and the Russian regions and from the U.S. and Europe as well.

The conference covered the following major topics this year: the status of the Russian agricultural and food market, the dynamic of the local retail sector development, investment climate in Russia and financing of the Russian food processing industry, the Russia's entry to WTO, and the local consumer market analysis.

Mr. Igor Kachalov, General Director of the 'Kachalov & Colleagues' marketing agency and a speaker/moderator at the conference as well, shared with the audience his ideas about the trends in Russia's retail sector. Rich in statistics and graphics, Mr. Kachalov's speech presented a comparative analysis of the retail volume and per capita consumption in Russia and the European countries and perspectives of the further retail sector development. Below is a brief summary of the fresh ideas about the retail sector in Russia. The market assessments were mostly based on the data of the State Statistics Committee of the Russian Federation.

Per Capita Income Drives the Growth

The major fuel for the sales growth in Russia as in any other country is per capita income of the local population. It is important to note that per capita monthly income in Russia has increased slowly across the regions, but quickly in Moscow. Per capita income is up twofold since 1990, and it makes up today \$300 each month in Russia, but \$1,200 in Moscow, and \$430 in the Russian large cities (i.e. with the population over \$1 million - 13 cities in total).

According to Mr. Kachalov, the Russian food market is characterized by the three following periods of formation based on per capita monthly income for different groups of the population:

A. Poverty (no market):

- Less than \$80: the market starts developing;
- \$200-\$240: the positive dynamic of the market development;
- \$400-\$480: the market develops quickly; it is characterized by the purchase volume growth

B. Middle Class (developed market):

- \$800-\$960: the middle class shows up; the segment of expensive and elite food is growing. According to the market experts, the sales volume in Moscow exceeded this year that in New York.

C. Middle Class ++ (the new model of the market):

- \$1,600-\$2,000
- Soon after 2012, more and more Russians will reach these standards of living.

According to market experts, per capita monthly income in Russia will keep growing and will reach \$600 in Russia and \$1,500 in Moscow by 2012. Per capita income in the Russian large cities will increase twofold over the same period of time. This represents a large future growth in consumption of food because of Russia's large population

Moscow is the only city in Russia which stands very close to Europe in terms of per capita food consumption, i.e. \$200, with the monthly income of \$1,100. The Russian regions are far behind Moscow with \$70 of food consumption (\$300 of per capita income) to be spent on food and beverages. For comparison, the mostly high spending for food products is now in the U.S., i.e. \$400-\$450 (if per capita income is \$1,700-\$1,900).

Hence, the volume of the food market in Russia is expected to grow further and estimated to reach the following level:

Food Consumption:	In 2004	By 2012
In Moscow	\$200	\$340
In Russia	\$70	\$130

Food Market Volume:

In Moscow	\$25 billion	\$42 billion
In Russia	\$125 billion	\$230 billion

It was interesting to note that the share of the major food and non-food categories sold in the local retail outlets is almost equal and makes up 15% for each of the following groups of products, including confectionery products, alcoholic products, and meat products processed and prepared in the retail workshops; and 8% for each of the other categories, including dairy products, sausages, fruit and vegetables, and non-food items for home needs.

However, Mr. Kachalov forecasts that Russia's food market growth won't last forever. The market will reach saturation by 2012/14 for Moscow when per capita food consumption reaches \$330-\$380 each month, and by 2018/20 for the large regional cities (\$280-\$330), and by 2022/24 for overall Russia (\$240-\$280).

Market Opportunities

As the Russian economy continues to grow and consumer incomes rise, there are emerging opportunities for wide range of U.S. food products, packaged for retail sale.

For U.S. companies who would like to participate in the World Food trade show in September 2005 and attend the show conference next year, please contact us at ATOMoscow@usda.gov.

If you are interested in getting more information about Kachalov & Associates marketing services and data, used here by permission, please contact the company using the contacts below.

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